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CENTRAL INTELLIGENCE AGENCY

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REPORT

SUBJECT Significance of the Soviet Bloc's
Dependence on Western Economic Ties

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analysis of the significance of the

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Soviet Bloc's dependence on economic ties with the West in the
light of the Berlin crisis.

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The Significance of the East Bloc's Economic Ties with
the West in View of the Berlin Crisis.

The Soviet-stimulated Berlin crisis has created many problems.

Moscow's goal seems clear:

The Kremlin's intention is to eliminate Berlin as a Western political tool within "its" territory.

Berlin's present status hampers the East Bloc's efforts at integration. It enables thousands of people to escape, (most of them from the DDR, but more intense integration would probably also cause people to flee from the rest of the Eastern sphere). Berlin also represents a political accusation for the Kremlin in so far as Western propaganda constantly flows to the East, increasing ideological tensions there.

Moscow does not intend to diminish economic ties with the West; on the contrary, it wants to increase them.

Several factors indicate this: Nikoyan's visit to 50X1-HUM
the East Bloc's trade-and-aid initiative in underdeveloped countries, its efforts to secure credit and other economic assistance from Western nations, Khrushchev's visit to the Leipzig Fair, and solicitation of contacts with important Western firms.

Two questions which should be considered are:

1. Why does the East Bloc need close economic ties with the West, and
2. How can the Kremlin be officially warned that the West will retaliate economically if Moscow follows an aggressive, one-sided policy in the Berlin question?

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What factors force the East Bloc to seek economic ties with the West?

a) historical development

The Soviet Union and, even more, Poland, Hungary, CSR and the GDR, have a history of private enterprise. Many of their industries were not only established and equipped by Western companies, but were also re-outfitted over the years and the original plants were expanded and improved.

Because the East Bloc has bent most of its economic energies to constructing new factories and other industrial works, most of the original plants have become antiquated. An enormous amount of repair work is necessary and, most important, the spare parts for this must be obtained primarily from Western countries. Should there be an economic blockade by Western nations, the entire East Bloc economy would come to a standstill.

Another pulse from the East Bloc's economic past is that, because many industrial plants are of Western origin, their reconstruction and renovation is impossible without reference to the development of similar plants in the West. Trade relations and the exchange of specialists yield economic intelligence for the East on the growth of certain Western industries, and on what innovations are introduced in Western production and what the East can learn from this information.

b) the present system

The centralized economy constantly provokes new situations which force the East Bloc to seek economic ties with the West.

Because most of the economic weight is concentrated only in certain fields, disproportions arise in peripheral

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branches of the economy, and the East Bloc cannot rapidly overcome these problems with its own resources. Shortages of certain materials and mechanical equipment occur (for example, bituminous coal in 1956-1958, now cement) for which the East itself cannot compensate. The entire East Bloc has no noteworthy reserves of materials, food stuffs and other industrial products, especially spare parts -- the Eastern countries practically live from hand to mouth -- so that when it becomes difficult to supply the factories and the population, the East Bloc countries are always forced to trade with the West. The East's attitude is that the West is a kind of reservoir to be drawn on when needed. The East Bloc's only problem in drawing on the Western reservoir is how to pay for the needed imports. It frequently solves this problem by reimbursing with exactly those resources which are in short supply in the East (bituminous coal, petroleum, ores, steel, grain, sugar, paper, wool, chemicals and many others).

Another problem inherent in the economic system is that the East Bloc economy does not make steady progress, so that disproportions always arise in production capacity. For example, the steel presses, stamping-, strip-, and rolling-mills either have no fixed capacity or only an insufficient one. The East Bloc has scarcely any rolling mills for producing trolley car tracks and must import almost all its replacements of this kind of material from Western countries. The street car system in the East is extremely hard to maintain. The same may be said for a gigantic number of other fields of production, especially the pharmaceutical industry, hospital supplies and organic life stuffs.

Bottlenecks and disproportionment arising from the historical as well as the present development of the East Bloc occur in

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heavy industry, machine tooling, in power production and the auto industry, in textile manufacture and in shipping, in equipping the chemical industry with precision instruments and optical equipment, as well as in producing computers.

c) strategy

The East Bloc holds fast to the political slogan "Overtake the West" in every sense of the phrase. The Eastern countries not only intend to overhaul the West in per-capita production but also to surpass it in modern technology: in using the most systematic production methods.

Economic trade relations offer the best opportunity for investigating the economic capabilities of the West in order to discover just where the West stands in its development. Aside from this, the East Bloc aims at buying certain machines and industrial installations in order to copy them and enter them in competition on the neutral markets in the foreseeable future.

Close economic ties also afford opportunity for military espionage.

d) political

The East Bloc's trade relations with the West are politically necessary first, because these ties enable the East Bloc to use Western imports to fill the chinks in its supply system and thus to quell or calm down political discord in its own camp.

Second, Western trade also serves the purposes of Communist political propaganda in that disquiet is aroused on Western

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markets by the dumping policy of politically controlled export firms. These endeavors may be considerably increased as the East's economic power grows.

The problems discussed under (a) through (d) should always be kept in mind in the debate with the East Bloc. The anti-Stalinist forces in the Communist sphere of influence often fail to comprehend Western economic policy and they would welcome a single-minded trade policy directed toward them because this would enable them to carry out genuine reform plans more readily.

Although such a policy is hardly feasible for the Western governments even in times of apparent easing of strained relations with the East (as between 1954 and 1958), it now appears to be absolutely essential for the free world.

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